

CB RICHARD ELLIS GROUP INC  
Form 10-Q  
November 09, 2006

# UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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## FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2006

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

For the Transition Period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 001 32205

## CB RICHARD ELLIS GROUP, INC.

(Exact name of Registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of incorporation or organization)  
**100 N. Sepulveda Boulevard, Suite 1050**  
**El Segundo, California**  
(Address of principal executive offices)  
**(310) 606-4700**  
(Registrant's telephone number, including area code)

**94-3391143**  
(I.R.S. Employer Identification Number)  
**90245**  
(Zip Code)  
**(Former name, former address and  
former fiscal year if changed since last report)**

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No .

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No .

The number of shares of Class A common stock outstanding at October 31, 2006 was 225,340,278.



FORM 10-Q

September 30, 2006

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**CB RICHARD ELLIS GROUP, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
(Dollars in thousands, except share data)

	September 30, 2006 (Unaudited)	December 31, 2005
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 138,273	\$ 449,289
Restricted cash	8,737	5,179
Receivables, less allowance for doubtful accounts of \$17,447 and \$15,646 at September 30, 2006 and December 31, 2005, respectively	504,430	483,175
Warehouse receivables	92,900	255,963
Prepaid expenses	51,466	36,402
Deferred tax assets, net	58,612	38,629
Other current assets	18,603	16,327
Total Current Assets	873,021	1,284,964
Property and equipment, net	153,781	137,655
Goodwill	969,571	880,179
Other intangible assets, net of accumulated amortization of \$41,328 and \$30,586 at September 30, 2006 and December 31, 2005, respectively	106,353	109,540
Deferred compensation assets	184,548	144,597
Investments in and advances to unconsolidated subsidiaries	122,234	106,153
Deferred tax assets, net	109,377	94,200
Other assets, net	75,241	58,384
Total Assets	\$ 2,594,126	\$ 2,815,672
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 232,214	\$ 254,085
Compensation and employee benefits payable	225,985	189,984
Accrued bonus and profit sharing	241,838	324,973
Income taxes payable	27,870	63,918
Short-term borrowings:		
Revolving line of credit	139,762	
Warehouse lines of credit	92,900	255,963
Other	25,414	16,189
Total short-term borrowings	258,076	272,152
Current maturities of long-term debt	322	11,913
Other current liabilities	22,362	20,778
Total Current Liabilities	1,008,667	1,137,803
Long-Term Debt:		
11 1/4% senior subordinated notes, net of unamortized discount of \$1,648 at December 31, 2005		163,021
Senior secured term loan		253,450
934% senior notes	130,000	130,000
Other long-term debt	2,262	2,685
Total Long-Term Debt	132,262	549,156
Deferred compensation liability	200,243	172,871
Pension liability	44,822	41,194
Other liabilities	153,575	114,139
Total Liabilities	1,539,569	2,015,163
Commitments and contingencies		
Minority interest	28,715	6,824
Stockholders Equity:		
Class A common stock; \$0.01 par value; 325,000,000 shares authorized; 225,282,552 and 221,353,746 shares issued and outstanding at September 30, 2006 and December 31, 2005, respectively	2,253	2,214
Additional paid-in capital	580,848	548,652
Notes receivable from sale of stock	(83 )	(101 )
Accumulated earnings	476,988	283,515
Accumulated other comprehensive loss	(34,164 )	(40,595 )
Total Stockholders Equity	1,025,842	793,685
Total Liabilities and Stockholders Equity	\$ 2,594,126	\$ 2,815,672

The accompanying notes are an integral part of these consolidated financial statements.



**CB RICHARD ELLIS GROUP, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(Unaudited)  
(Dollars in thousands, except share data)

	Three Months Ended September 30, 2006		Nine Months Ended September 30, 2006	
	2006	2005	2006	2005
Revenue	\$ 903,876	\$ 744,198	\$ 2,420,195	\$ 1,954,627
Costs and expenses:				
Cost of services	456,994	380,943	1,209,935	987,680
Operating, administrative and other	293,122	255,706	841,881	720,657
Depreciation and amortization	14,892	11,665	42,077	32,853
Operating income	138,868	95,884	326,302	213,437
Equity income from unconsolidated subsidiaries	9,135	4,068	25,976	23,441
Minority interest (income) expense	(577 )	440	1,232	1,793
Interest income	1,002	2,367	7,568	7,870
Interest expense	7,468	15,794	34,755	42,766
Loss on extinguishment of debt		624	22,255	7,386
Income before provision for income taxes	142,114	85,461	301,604	192,803
Provision for income taxes	49,805	28,525	108,131	70,874
Net income	\$ 92,309	\$ 56,936	\$ 193,473	\$ 121,929
Basic income per share	\$ 0.41	\$ 0.26	\$ 0.86	\$ 0.55
Weighted average shares outstanding for basic income per share	226,749,704	222,532,011	226,095,680	221,502,507
Diluted income per share	\$ 0.39	\$ 0.25	\$ 0.83	\$ 0.53
Weighted average shares outstanding for diluted income per share	233,943,772	230,331,813	233,519,809	229,334,424

The accompanying notes are an integral part of these consolidated financial statements.

**CB RICHARD ELLIS GROUP, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(Unaudited)**  
**(Dollars in thousands)**

	<b>Nine Months Ended September 30,</b>	
	<b>2006</b>	<b>2005</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 193,473	\$ 121,929
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	42,077	32,853
Amortization and write-off of deferred financing costs	14,351	4,703
Amortization and write-off of long-term debt discount	1,648	635
Deferred compensation deferrals	24,958	18,852
Gain on sale of servicing rights and other assets	(8,425 )	(3,534 )
Equity income from unconsolidated subsidiaries	(25,976 )	(23,441 )
Distributions of earnings from unconsolidated subsidiaries	18,421	13,307
Minority interest expense	1,232	1,793
Provision for doubtful accounts	1,810	3,644
Deferred income taxes	(16,604 )	3,289
Compensation expense for stock options and non-vested stock awards	7,656	2,979
Incremental tax benefit from stock options exercised	(17,350 )	
Tenant concessions received	6,734	2,428
(Increase) decrease in receivables	(9,816 )	28,215
Increase in deferred compensation assets	(39,951 )	(40,112 )
Increase in prepaid expenses and other assets	(37,713 )	(11,192 )
(Decrease) increase in accounts payable and accrued expenses	(29,735 )	3,865
Decrease in compensation and employee benefits payable and accrued bonus and profit sharing	(39,629 )	(25,125 )
(Decrease) increase in income tax payable	(21,225 )	26,925
Increase (decrease) in other liabilities	20,707	(24,725 )
Other operating activities, net	(232 )	(508 )
Net cash provided by operating activities	86,411	136,780
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Capital expenditures	(37,994 )	(24,788 )
Acquisition of businesses including net assets acquired, intangibles and goodwill, net of cash acquired	(89,793 )	(29,137 )
Investment in properties held for sale		(65,774 )
Contributions to unconsolidated subsidiaries, net of capital distributions	(13,047 )	(6,520 )
Proceeds from the sale of servicing rights and other assets	7,992	3,023
Proceeds from sale of property held for sale		28,289
(Increase) decrease in restricted cash	(3,522 )	3,152
Other investing activities, net	489	1,844
Net cash used in investing activities	(135,875 )	(89,911 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from revolving credit facility	511,981	
Repayment of revolving credit facility	(372,374 )	
Repayment of senior secured term loan	(265,250 )	(8,850 )
Repayment of 11 1/4% senior subordinated notes	(164,669 )	(42,700 )
Proceeds from debt related to properties held for sale		53,543
Repayment of debt related to property held for sale		(23,310 )
Repayment of euro cash pool loan and other loans, net	(5,148 )	(1,519 )
Proceeds from exercise of stock options	7,576	6,584
Incremental tax benefit from stock options exercised	17,350	
Minority interest contributions (distributions), net	10,292	(1,090 )

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Payment of deferred financing fees	(5,159 )	(318 )
Other financing activities, net	(652 )	346
Net cash used in financing activities	(266,053 )	(17,314 )
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(315,517 )</b>	<b>29,555</b>
<b>CASH AND CASH EQUIVALENTS, AT BEGINNING OF PERIOD</b>	<b>449,289</b>	<b>256,896</b>
Effect of currency exchange rate changes on cash and cash equivalents	4,501	(1,880 )
<b>CASH AND CASH EQUIVALENTS, AT END OF PERIOD</b>	<b>\$ 138,273</b>	<b>\$ 284,571</b>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>		
Cash paid during the period for:		
Interest	\$ 38,742	\$ 33,066
Income taxes, net of refunds	\$ 147,208	\$ 37,224

The accompanying notes are an integral part of these consolidated financial statements.

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**CB RICHARD ELLIS GROUP, INC.**  
**CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY**  
**(Unaudited)**  
**(Dollars in thousands, except share data)**

	Shares	Class A common stock	Additional paid-in capital	Notes receivable from sale of stock	Accumulated earnings	Accumulated other comprehensive loss	Minimum pension liability	Foreign currency translation	Total
Balance at December 31, 2005	221,353,746	\$ 2,214	\$ 548,652	\$ (101 )	\$ 283,515	\$ (20,739 )	\$ (19,856 )	\$ 793,685	
Net income					193,473			193,473	
Net cancellation and distribution of deferred compensation stock fund units	657,773	6	(87 )					(81 )	
Stock options exercised (including tax benefit)	2,697,761	27	24,627					24,654	
Compensation expense for stock options and non-vested stock awards			7,576					7,576	
Non-cash issuance of common stock	3,112		80					80	
Non-vested stock grants	598,725	6						6	
Net collection on notes receivable from sale of stock				18				18	
Foreign currency translation gain							6,431	6,431	
Cancellation of non-vested stock awards	(28,565 )								
Balance at September 30, 2006	225,282,552	\$ 2,253	\$ 580,848	\$ (83 )	\$ 476,988	\$ (20,739 )	\$ (13,425 )	\$ 1,025,842	

The accompanying notes are an integral part of these consolidated financial statements.

**CB RICHARD ELLIS GROUP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

**1. Nature of Operations**

CB Richard Ellis Group, Inc. (formerly known as CBRE Holding, Inc.), a Delaware corporation (which may be referred to in this Quarterly Report on Form 10-Q as we, us, and our ), was incorporated on February 20, 2001 and was created to acquire all of the outstanding shares of CB Richard Ellis Services, Inc. (CBRE), an international commercial real estate services firm. Prior to July 20, 2001, we were a wholly owned subsidiary of Blum Strategic Partners, L.P. (Blum Strategic), formerly known as RCBA Strategic Partners, L.P., which is an affiliate of Richard C. Blum, a director of CBRE and our company.

On July 20, 2001, we acquired all of the outstanding stock of CBRE pursuant to an Amended and Restated Agreement and Plan of Merger, dated May 31, 2001, among CBRE, Blum CB Corp. (Blum CB) and us. Blum CB was merged with and into CBRE with CBRE being the surviving corporation (the 2001 Merger). In July 2003, our global position in the commercial real estate services industry was further solidified as CBRE acquired Insignia Financial Group, Inc. (Insignia). On July 23, 2003, pursuant to an Amended and Restated Agreement and Plan of Merger, dated May 28, 2003 (the Insignia Acquisition Agreement), by and among us, CBRE, Apple Acquisition Corp. (Apple Acquisition), a Delaware corporation and wholly owned subsidiary of CBRE, and Insignia, Apple Acquisition was merged with and into Insignia (the Insignia Acquisition). Insignia was the surviving corporation in the Insignia Acquisition and at the effective time of the Insignia Acquisition became a wholly owned subsidiary of CBRE. We have no substantive operations other than our investment in CBRE.

On June 15, 2004, we completed the initial public offering of shares of our Class A common stock (the IPO). In connection with the IPO, we issued and sold 23,180,292 shares of our Class A common stock and received aggregate net proceeds of approximately \$135.0 million, after deducting underwriting discounts and commissions and offering expenses payable by us. Also in connection with the IPO, selling stockholders sold an aggregate of 48,819,708 shares of our Class A common stock and received net proceeds of approximately \$290.6 million, after deducting underwriting discounts and commissions. On July 14, 2004, selling stockholders sold an additional 687,900 shares of our Class A common stock to cover over-allotments of shares by the underwriters and received net proceeds of approximately \$4.1 million, after deducting underwriting discounts and commissions. Lastly, on December 13, 2004 and November 15, 2005, we completed secondary public offerings that provided further liquidity for some of our stockholders. We did not receive any of the proceeds from the sales of shares by the selling stockholders on June 15, 2004, July 14, 2004, December 13, 2004 and November 15, 2005.

We offer a full range of services to occupiers, owners, lenders and investors in office, retail, industrial, multi-family and other commercial real estate assets globally under the CB Richard Ellis brand name. Our business is focused on several service competencies, including tenant representation, property/agency leasing, property sales, commercial mortgage origination and servicing, integrated capital markets (equity and debt) solutions, commercial property and corporate facility management, valuation, proprietary research and real estate investment management. We generate revenues both on a per project or transaction basis and from annual management fees.

**2. Basis of Presentation**

The accompanying consolidated financial statements have been prepared in accordance with the rules applicable to Form 10-Q and include all information and footnotes required for interim financial

**CB RICHARD ELLIS GROUP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**

**2. Basis of Presentation (Continued)**

statement presentation, but do not include all disclosures required under accounting principles generally accepted in the United States of America (GAAP) for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ materially from those estimates. All significant inter-company transactions and balances have been eliminated, and certain reclassifications have been made to prior periods consolidated financial statements to conform to the current period presentation. The results of operations for the three and nine months ended September 30, 2006 are not necessarily indicative of the results of operations to be expected for the year ending December 31, 2006. The consolidated financial statements and notes to consolidated financial statements should be read in conjunction with our current Annual Report on Form 10-K, which contains the latest available audited consolidated financial statements and notes thereto, which are as of and for the year ended December 31, 2005.

On April 28, 2006, our board of directors approved a three-for-one stock split of our outstanding Class A common stock effected as a 100% stock dividend, which was distributed on June 1, 2006. The applicable share and per share data for all periods included herein has been restated to give effect to this stock split.

**3. Stock-Based Compensation**

*Stock Incentive Plans*

*2001 Stock Incentive Plan.* Our 2001 stock incentive plan was adopted by our board of directors and approved by our stockholders on June 7, 2001. However, our 2001 stock incentive plan was terminated in June 2004 in connection with the adoption of our 2004 stock incentive plan, which is described below. The 2001 stock incentive plan permitted the grant of nonqualified stock options, incentive stock options, stock appreciation rights, restricted stock, restricted stock units and other stock-based awards to our employees, directors or independent contractors. Since our 2001 stock incentive plan has been terminated, no shares remain available for issuance under it. However, as of September 30, 2006, outstanding stock options granted under the 2001 stock incentive plan to acquire 8,264,279 shares of our Class A common stock remain outstanding according to their terms, and we will continue to issue shares to the extent required under the terms of such outstanding awards. Options granted under this plan have an exercise price of \$1.92 and vest and are exercisable in 20% annual increments over five years from the date of grant. Options granted under the 2001 stock incentive plan are subject to a maximum term of ten years from the date of grant. The number of shares issued pursuant to the stock incentive plan, or pursuant to outstanding awards, is subject to adjustment on account of stock splits, stock dividends and other dilutive changes in our Class A common stock. In the event of a change of control of our company, all outstanding options will become fully vested and exercisable.

*Amended and Restated 2004 Stock Incentive Plan.* Our 2004 stock incentive plan was adopted by our board of directors and approved by our stockholders on April 21, 2004, was amended and restated on April 14, 2005 and was amended again on September 6, 2006. The 2004 stock incentive plan authorizes the

**CB RICHARD ELLIS GROUP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**

**3. Stock-Based Compensation (Continued)**

grant of stock-based awards to our employees, directors or independent contractors. A total of 20,785,218 shares of our Class A common stock initially were reserved for issuance under the 2004 stock incentive plan. This share reserve is reduced by one share upon grant of an option or stock appreciation right, and is reduced by 2.25 shares upon issuance of stock pursuant to other stock-based awards. Awards that expire, terminate, lapse, that are reacquired by us or are redeemed for cash rather than shares will again be available for grant under this plan. Pursuant to the terms of our 2004 stock incentive plan, no employee is eligible to be granted options or stock appreciation rights covering more than 6,235,566 shares during any calendar year. This limitation is subject to a policy adopted by our board of directors which states that no person is eligible to be granted options, stock appreciation rights or restricted stock purchase rights covering more than 2,078,523 shares during any calendar year or to be granted any other form of stock award covering more than 1,039,260 shares during any calendar year. As of September 30, 2006, 7,173,643 shares were subject to options issued under our 2004 stock incentive plan and 9,483,556 shares remained available for future grants under the 2004 stock incentive plan. Options granted under this plan during 2004 have exercise prices in the range of \$6.33 to \$7.46 and vest and are exercisable generally in equal annual increments over three or four years from the date of grant. Options granted under this plan during 2005 have exercise prices in the range of \$11.10 to \$15.43 and vest and are also exercisable generally in equal annual increments over three or four years from the date of grant. Options granted under this plan during 2006 have exercise prices in the range of \$23.46 to \$25.67 and vest and are also exercisable generally in equal annual increments over three or four years from the date of grant. All options previously granted under the 2004 stock incentive plan have had a term of five or seven years from the date of grant. We also granted non-vested stock awards of 30,954 shares, 472,368 shares and 598,725 shares during 2004, 2005 and 2006, respectively. These non-vested stock awards generally vest in equal annual increments over four years from the date of the grant. Additionally, during 2006, we also granted 441,753 of non-vested stock units, which vest ten years from the date of grant. The number of shares issued or reserved pursuant to the 2004 stock incentive plan, or pursuant to outstanding awards, is subject to adjustment on account of mergers, consolidations, reorganizations, stock splits, stock dividends and other dilutive changes in our common stock. In addition, our board of directors may adjust outstanding awards to preserve the awards' benefits or potential benefits.

A summary of the status of our option plans is presented in the tables below:

	Shares	Weighted Average Exercise Price	Exercisable Shares	Weighted Average Exercise Price
Outstanding at December 31, 2005	17,391,048	\$ 5.46	4,644,981	\$ 2.97
Exercised	(2,697,761 )	2.78		
Granted	967,256	23.50		
Forfeited	(222,621 )	7.33		
Outstanding at September 30, 2006	15,437,922	\$ 7.02	7,029,585	\$ 4.44

**CB RICHARD ELLIS GROUP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**

**3. Stock-Based Compensation (Continued)**

Options outstanding at September 30, 2006 and their related weighted average exercise price, intrinsic value and life information is presented below:

Exercise Prices	Outstanding Options			Aggregate Intrinsic Value	Exercisable Options		
	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price		Number Exercisable	Weighted Average Exercise Price	Aggregate Intrinsic Value
\$1.92	8,264,279	6.1	\$ 1.92		4,847,453	\$ 1.92	
\$6.33 - \$7.46	3,137,512	3.0	7.44		1,454,014	7.43	
\$11.10 - \$15.43	3,078,475	5.8	15.17		726,822	15.29	
\$23.46 - \$25.67	957,656	6.9	23.50		1,296	25.66	
	15,437,922	5.5	\$ 7.02	\$ 271,398,669	7,029,585	\$ 4.44	\$ 141,716,434

*Non-Vested Stock Awards.* Under our 2004 stock incentive plan, we have issued non-vested stock awards in our Class A common stock to certain of our employees and members of our Board of Directors. A summary of the status of our non-vested stock awards is presented in the table below:

	Shares	Weighted Average Market Value Per Share
Balance at December 31, 2005	503,322	\$ 14.79
Granted	1,040,478	23.13
Vested	(109,062 )	15.43
Forfeited	(32,099 )	18.09
Balance at September 30, 2006	1,402,639	\$ 20.85

*Accounting for Stock-Based Compensation*

Prior to 2003, we accounted for our employee stock-based compensation plans under the recognition and measurement provisions of Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees* and related Financial Accounting Standards Board (FASB) interpretations. Accordingly, compensation cost for employee stock options was measured as the excess, if any, of the estimated market price of our Class A common stock at the date of grant over the amount an employee was required to pay to acquire the stock.

In the fourth quarter of 2003, we adopted the fair value recognition provisions of Statement of Financial Accounting Standards (SFAS) No. 123, *Accounting for Stock-Based Compensation* prospectively to all employee awards granted, modified or settled after January 1, 2003, as permitted by SFAS No. 148, *Accounting for Stock-Based Compensation Transition and Disclosure An Amendment of FASB Statement No. 123*. Awards under our stock-based compensation plans generally vest over three to five-year periods. Therefore, the cost related to stock-based employee compensation included in the determination of net income for the three and nine months ended September 30, 2006 and 2005 is less than that which would have been recognized if the fair value based method had been applied to all awards since the original effective date of SFAS No. 123.

**CB RICHARD ELLIS GROUP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**

**3. Stock-Based Compensation (Continued)**

In December 2004, the FASB issued SFAS No. 123 Revised, *Share Based Payment*, or SFAS No. 123R. SFAS No. 123R requires the measurement of compensation cost at the grant date, based upon the estimated fair value of the award, and requires amortization of the related expense over the employee's requisite service period. Effective January 1, 2006, we adopted SFAS No. 123R applying the modified-prospective method for remaining unvested options that were granted subsequent to our IPO and the prospective method for remaining unvested options that were granted prior to our IPO.

The modified-prospective method provides for certain changes to the method for valuing share-based payment compensation, however prior periods are not required to be revised for comparative purposes. The valuation provisions of SFAS No. 123R apply to new awards as well as options that were granted subsequent to our IPO that were outstanding on the effective date and are subsequently modified or cancelled. As we have been accounting for our options under the fair value based method under SFAS No. 123 since the fourth quarter of 2003, the adoption of the modified-prospective method of SFAS No. 123R has not had a material impact on our financial position or results of operations.

We are applying the prospective method for the remaining unvested options that were granted prior to our IPO. Under prospective method application, the fair value and other provisions of the statement are to be applied only to awards modified, repurchased or cancelled after the required effective date. In addition, we are required to account for any portion of awards outstanding as of January 1, 2006 using the accounting principles originally applied to those awards. Accordingly, for stock awards issued in 2001 and 2002 which remained outstanding as of January 1, 2006, we are continuing to account for them under the measurement provisions of APB Opinion No. 25 and related FASB interpretations. In addition, our 2003 and pre-IPO 2004 grants will continue to be accounted for under the minimum value provisions of SFAS No. 123.

In accordance with SFAS No. 123R, we have continued to estimate the fair value of our options using the Black-Scholes option-pricing model, which takes into account assumptions such as the dividend yield, the risk-free interest rate, the expected stock price volatility and the expected life of the options. SFAS No. 123R also requires companies to estimate forfeitures. As we previously estimated forfeitures under SFAS No. 123, in this regard our adoption of SFAS No. 123R has had no impact on our results of operations for the nine months ended September 30, 2006.

The weighted average fair value of options granted by us was \$10.38 and \$5.74 for the three months ended September 30, 2006 and 2005, respectively, and \$10.38 and \$5.63 for the nine months ended September 30, 2006 and 2005, respectively. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model, utilizing the following weighted average assumptions:

	Three Months Ended		Nine Months Ended					
	September 30,		September 30,		September 30,			
	2006	2005	2006	2005	2006	2005		
Dividend yield	0	%	0	%	0	%	0	%
Risk-free interest rate	4.80	%	4.02	%	4.80	%	3.99	%
Expected volatility	40.00	%	40.00	%	39.94	%	40.00	%
Expected life	5 years		4 years		5 years		4 years	

**CB RICHARD ELLIS GROUP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
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**3. Stock-Based Compensation (Continued)**

The dividend yield assumption is excluded from the calculation, as it is our present intention to retain all earnings. The expected volatility is based on a combination of our historical stock price and implied volatility. The selection of implied volatility data to estimate expected volatility is based upon the availability of actively traded options on our stock. The risk-free interest rate is based upon the U.S. Treasury yield curve in effect at the time of grant for periods corresponding with the expected life of the options. The expected life of our stock options represents the average between the vesting and contractual term, pursuant to Staff Accounting Bulletin No. 107.

Option valuation models require the input of subjective assumptions including the expected stock price volatility and expected life. Because our employee stock options have characteristics significantly different from those of traded options and because changes in the subjective input assumptions can materially affect the fair value estimate, we do not believe that the Black-Scholes model necessarily provides a reliable single measure of the fair value of our employee stock options.

The total estimated grant date fair value of stock options that vested during the nine months ended September 30, 2006 was \$5.4 million, which approximates the share-based compensation expense before taxes included in other operating expenses. At September 30, 2006, total unrecognized estimated compensation cost related to non-vested stock options granted prior to that date was approximately \$26.8 million, which is expected to be recognized over a weighted average period of approximately 3.2 years. The total intrinsic value of stock options exercised during the nine months ended September 30, 2006 was \$55.8 million. We recorded cash received from stock option exercises of \$7.6 million and related tax benefits of \$17.4 million during the nine months ended September 30, 2006. Upon option exercise, we issue new shares of stock.

Excess tax benefits exist when the tax deduction resulting from the exercise of options exceeds the compensation cost recorded. Prior to the adoption of SFAS No. 123R, we presented all such excess tax benefits as operating cash flows on our consolidated statements of cash flows. SFAS No. 123R requires the cash flows resulting from such excess tax benefits to be classified as financing cash flows. Under SFAS No. 123R, we have classified excess tax benefits of \$17.4 million for the nine months ended September 30, 2006 as financing cash inflows.

In November 2005, the FASB issued FASB Staff Position No. FAS 123(R)-3, *Transition Election Related to Accounting for Tax Effects of Share-Based Payment Awards*. We have elected to adopt the alternative transition method provided in this FASB Staff Position for calculating the tax effects of share-based compensation pursuant to SFAS No. 123R. The alternative transition method includes a simplified method to establish the beginning balance of the additional paid-in capital pool related to the tax effects of employee share-based compensation, which is available to absorb tax deficiencies recognized subsequent to the adoption of SFAS No. 123R.

**4. Fair Value of Financial Instruments**

SFAS No. 107, *Disclosures about Fair Value of Financial Instruments*, requires disclosure of fair value information about financial instruments, whether or not required to be recognized in the accompanying consolidated balance sheets. Fair value is defined as the amount at which an instrument could be exchanged in a current transaction between willing parties other than in a forced or liquidation sale. The

**CB RICHARD ELLIS GROUP, INC.**  
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**4. Fair Value of Financial Instruments (Continued)**

fair value estimates of financial instruments are not necessarily indicative of the amounts we might pay or receive in actual market transactions. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

*Cash and Cash Equivalents and Restricted Cash:* These balances include cash and cash equivalents as well as restricted cash with maturities of less than three months. The carrying amount approximates fair value due to the short-term maturities of these instruments.

*Receivables, less allowance for doubtful accounts:* Due to their short-term nature, fair value approximates carrying value.

*Warehouse Receivables:* Due to their short-term nature, fair value approximates carrying value. Fair value is determined based on the terms and conditions of funded mortgage loans and generally reflects the values of the WaMu and JP Morgan warehouse lines of credit outstanding for our wholly-owned subsidiary, CBRE Melody & Company (CBRE Melody), which was formerly known as L.J. Melody & Company (See Note 8).

*Short-Term Borrowings:* The majority of this balance represents our revolving credit facility and the WaMu and JP Morgan warehouse lines of credit outstanding for CBRE Melody. Due to the variable interest rates of these instruments, fair value approximates carrying value (See Note 8).

*11¼% Senior Subordinated Notes:* Based on dealers quotes, the estimated fair value of our 11¼% senior subordinated notes was \$177.8 million at December 31, 2005. The actual carrying value totaled \$163.0 million at December 31, 2005 (See Note 8).

*9¾% Senior Notes:* Based on dealers quotes, the estimated fair value of our 9¾% senior notes was \$138.8 million and \$141.7 million at September 30, 2006 and December 31, 2005, respectively. Their actual carrying value totaled \$130.0 million at both September 30, 2006 and December 31, 2005 (See Note 8).

*Senior Secured Term Loan & Other Short-Term and Long-Term Debt:* Estimated fair values approximate respective carrying values because the substantial majority of these instruments are based on variable interest rates (See Note 8).



**CB RICHARD ELLIS GROUP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
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**5. Restricted Cash**

Included in the accompanying consolidated balance sheets as of September 30, 2006 and December 31, 2005, is restricted cash of \$8.7 million and \$5.2 million, respectively, which primarily consists of cash pledged to secure the guarantee of certain short-term notes issued in connection with previous acquisitions by Insignia in the United Kingdom (U.K.). Also included in the balance as of September 30, 2006, are escrow accounts related to strategic in-fill acquisitions completed during 2006.

**6. Goodwill and Other Intangible Assets**

The following table summarizes the changes in the carrying amount of goodwill for us and each of our segments (See Note 16 for a description of our segments) for the nine months ended September 30, 2006 (dollars in thousands):

	Americas	EMEA	Asia Pacific	Global Investment Management	Total
Balance at January 1, 2006	\$ 571,517	\$ 260,988	\$ 14,017	\$ 33,657	\$ 880,179
Purchase accounting adjustments related to acquisitions	8,438	57,288	13,840	4,302	83,868
Foreign exchange movement	53	5,437	41	(7)	5,524
Balance at September 30, 2006	\$ 580,008	\$ 323,713	\$ 27,898	\$ 37,952	\$ 969,571

Other intangible assets totaled \$106.4 million and \$109.5 million, net of accumulated amortization of \$41.3 million and \$30.6 million, as of September 30, 2006 and December 31, 2005, respectively, and are comprised of the following (dollars in thousands):

	As of September 30, 2006		As of December 31, 2005	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
<b>Unamortizable intangible assets</b>				
Trademarks	\$ 63,700		\$ 63,700	
Trade name	19,826		19,826	
	\$ 83,526		\$ 83,526	
<b>Amortizable intangible assets</b>				
Management contracts	28,922	(20,743)	27,769	(17,404)
Loan servicing rights	21,975	(8,908)	21,571	(7,657)
Other	13,258	(11,677)	7,260	(5,525)
	\$ 64,155	\$ (41,328)	\$ 56,600	\$ (30,586)
Total intangible assets	\$ 147,681	\$ (41,328)	\$ 140,126	\$ (30,586)

In accordance with SFAS No. 141, *Business Combinations*, trademarks of \$63.7 million were separately identified as a result of the 2001 Merger. As a result of the Insignia Acquisition, a \$19.8 million trade name was separately identified, which represents the Richard Ellis trade name in the U.K. that was owned by Insignia. Both the trademarks and the trade name have indefinite useful lives and accordingly are not being amortized.

**CB RICHARD ELLIS GROUP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
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**6. Goodwill and Other Intangible Assets (Continued)**

Management contracts are primarily comprised of property management contracts in the United States (U.S.), Canada, the U.K., France and other European countries, as well as valuation services and fund management contracts in the U.K. These management contracts are being amortized over estimated useful lives of up to ten years.

Loan servicing rights represent the fair value of servicing assets in our mortgage brokerage line of business in the U.S., the majority of which were acquired as part of the 2001 Merger. The loan servicing rights are being amortized over estimated useful lives of up to ten years.

Other amortizable intangible assets mainly represent other intangible assets acquired as a result of the Insignia Acquisition, including an intangible asset recognized for non-contractual revenue acquired in the U.S. as well as franchise agreements and a trade name in France. Additionally, net revenue backlog acquired from in-fill acquisitions in 2005 and 2006 is also included. All of these other intangible assets are being amortized over estimated useful lives of up to twenty years.

Amortization expense related to intangible assets was \$3.2 million and \$2.0 million for the three months ended September 30, 2006 and 2005, respectively, and \$10.1 million and \$5.7 million for the nine months ended September 30, 2006 and 2005, respectively. The estimated annual amortization expense for each of the years ending December 31, 2006 through December 31, 2010 approximates \$11.6 million, \$4.8 million, \$3.4 million, \$3.2 million and \$2.8 million, respectively.

**7. Investments in and Advances to Unconsolidated Subsidiaries**

Investments in and advances to unconsolidated subsidiaries are accounted for under the equity method of accounting. Combined condensed financial information for these entities is as follows (dollars in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Net revenue	\$ 174,449	\$ 128,770	\$ 432,823	\$ 326,090
Operating income	\$ 35,380	\$ 6,565	\$ 91,936	\$ 47,053
Net income	\$ 105,467	\$ 75,904	\$ 210,496	\$ 191,687

Our Global Investment Management segment involves investing our own capital in certain real estate investments with clients. We have provided investment management, property management, brokerage and other professional services to these equity investees on an arm's length basis and earned revenues from these unconsolidated subsidiaries.

In June 2005, CBRE Realty Finance, Inc. (CBRE Realty Finance), a real estate investment trust, was formed and is managed by CBRE Melody. The principal business activity of CBRE Realty Finance is to originate, acquire, invest in, finance and manage a diversified portfolio of commercial real estate-related loans and securities. On June 9, 2005, we received 300,000 shares of restricted stock and an option to purchase 500,000 shares of common stock from CBRE Realty Finance that vest in three equal annual installments. Effective June 9, 2006, 100,000 shares of the restricted stock vested and are now owned as common stock. As of September 30, 2006, CBRE Realty Finance had total assets of \$1.4 billion and total

**CB RICHARD ELLIS GROUP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
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**7. Investments in and Advances to Unconsolidated Subsidiaries (Continued)**

equity of \$279.1 million. CBRE Realty Finance is a variable interest entity as defined in FASB Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities* (FIN No. 46R). In accordance with FIN No. 46R, CBRE Realty Finance is not consolidated in our consolidated financial statements because we are not its primary beneficiary. Our maximum exposure to loss is limited to our equity investment in CBRE Realty Finance, which was approximately \$18.4 million as of September 30, 2006.

**8. Debt**

We had short-term borrowings of \$258.1 million and \$272.2 million with related average interest rates of 6.4% and 5.2% as of September 30, 2006 and December 31, 2005, respectively.

Since 2001, we have maintained a credit agreement with Credit Suisse (CS) and other lenders to fund strategic acquisitions and to provide for our working capital needs. On June 26, 2006, we entered into a \$600.0 million multi-currency senior secured revolving credit facility (the Credit Agreement) with a syndicate of banks led by CS, as administrative and collateral agent, which fully replaced our prior credit agreement. In connection with the replacement of our prior credit facility, we wrote off \$8.2 million of unamortized deferred financing fees during the nine months ended September 30, 2006.

Our Credit Agreement includes the following: (1) a \$600.0 million revolving credit facility, including revolving credit loans, letters of credit and a swingline loan facility, all maturing on June 24, 2011 and (2) the ability to borrow an additional \$200.0 million, subject to the satisfaction of customary conditions. The \$600.0 million revolving credit facility allows for borrowings outside of the U.S., with sub-facilities of \$5.0 million available to one of our Canadian subsidiaries, \$35.0 million available to one of our Australian and New Zealand subsidiaries and \$50.0 million available to one of our U.K. subsidiaries.

Borrowings under the revolving credit facility bear interest at varying rates, based at our option, on either the applicable fixed rate plus 0.575% to 1.1125% or the daily rate plus 0% to 0.1125%, in both cases as determined by reference to our ratio of total debt less available cash to EBITDA (as defined in the Credit Agreement). As of September 30, 2006, we had \$139.8 million of revolving credit facility principal outstanding, which is included in short-term borrowings in the accompanying consolidated balance sheets. As of September 30, 2006, letters of credit totaling \$1.5 million were outstanding, which letters of credit primarily relate to our subsidiaries' outstanding indebtedness as well as operating leases and reduce the amount we may borrow under the revolving credit facility.

Our previous credit agreement included the following: (1) a term loan facility of \$295.0 million, which required quarterly principal payments of \$2.95 million beginning December 31, 2004 through December 31, 2009 with the balance payable on March 31, 2010; and (2) a \$150.0 million revolving credit facility, including revolving credit loans, letters of credit and a swingline loan facility, all maturing on March 31, 2009. Our previous credit agreement also permitted us to make additional borrowings under a term loan facility of up to \$25.0 million, subject to the satisfaction of customary conditions.

Borrowings under the term loan facility bore interest at varying rates based, at our option, on either LIBOR plus 2.00% or the alternate base rate plus 1.00%. The alternate base rate was the higher of

**CB RICHARD ELLIS GROUP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**

**8. Debt (Continued)**

(1) CS's prime rate or (2) the Federal Funds Effective Rate plus one-half of one percent. The total amount outstanding under the term loan facility included in the senior secured term loan and current maturities of long-term debt balances in the accompanying consolidated balance sheets was \$265.3 million as of December 31, 2005.

Borrowings under the previous revolving credit facility bore interest at varying rates based at our option, on either the applicable LIBOR plus 2.00% to 2.50% or the alternate base rate plus 1.00% to 1.50%, in both cases as determined by reference to our ratio of total debt less available cash to EBITDA (as defined in the previous credit agreement). There was no revolving credit facility principal outstanding as of December 31, 2005.

The prior credit facilities were, and the Credit Agreement continues to be, jointly and severally guaranteed by us and substantially all of our domestic subsidiaries. The prior credit facilities were secured by a pledge of substantially all of our domestic assets, while borrowings under our Credit Agreement are secured by a pledge of substantially all of the capital stock of our U.S. subsidiaries and 65% of the capital stock of certain non-U.S. subsidiaries. Additionally, the Credit Agreement requires us to pay a fee based on the total amount of the revolving credit facility commitment.

In May 2003, in connection with the Insignia Acquisition, CBRE Escrow, Inc. (CBRE Escrow), a wholly owned subsidiary of CBRE, issued \$200.0 million in aggregate principal amount of 9¾% senior notes, which are due May 15, 2010. CBRE Escrow merged with and into CBRE, and CBRE assumed all obligations with respect to the 9¾% senior notes in connection with the Insignia Acquisition. The 9¾% senior notes are unsecured obligations of CBRE, senior to all of its current and future unsecured indebtedness, but subordinated to all of CBRE's current and future secured indebtedness. The 9¾% senior notes are jointly and severally guaranteed on a senior basis by us and substantially all of our domestic subsidiaries. Interest accrues at a rate of 9¾% per year and is payable semi-annually in arrears on May 15 and November 15. The 9¾% senior notes are redeemable at our option, in whole or in part, on or after May 15, 2007 at 104.875% of par on that date and at declining prices thereafter. In addition, before May 15, 2006, we were permitted to redeem up to 35.0% of the originally issued amount of the 9¾% senior notes at 109¾% of par, plus accrued and unpaid interest, solely with the net cash proceeds from public equity offerings, which we elected to do. During July 2004, we used a portion of the net proceeds we received from our IPO to redeem \$70.0 million in aggregate principal amount, or 35.0%, of our 9¾% senior notes, which also required the payment of a \$6.8 million premium and accrued and unpaid interest through the date of redemption. In the event of a change of control (as defined in the indenture governing our 9¾% senior notes), we are obligated to make an offer to purchase the 9¾% senior notes at a redemption price of 101.0% of the principal amount, plus accrued and unpaid interest. The amount of the 9¾% senior notes included in the accompanying consolidated balance sheets was \$130.0 million as of both September 30, 2006 and December 31, 2005.

In June 2001, in connection with the 2001 Merger, Blum CB issued \$229.0 million in aggregate principal amount of 11¼% senior subordinated notes due June 15, 2011 for approximately \$225.6 million, net of discount. CBRE assumed all obligations with respect to the 11¼% senior subordinated notes in connection with the 2001 Merger. The 11¼% senior subordinated notes were unsecured senior subordinated obligations of CBRE and were jointly and severally guaranteed on a senior subordinated

**CB RICHARD ELLIS GROUP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**

**8. Debt (Continued)**

basis by us and substantially all of our domestic subsidiaries. The 11¼% senior subordinated notes required semi-annual payments of interest in arrears on June 15 and December 15 and were redeemable in whole or in part on or after June 15, 2006 at 105.625% of par on that date and at declining prices thereafter. During the year ended December 31, 2004, we repurchased \$21.6 million in aggregate principal amount of our 11¼% senior subordinated notes in the open market. We paid \$3.1 million of premiums and wrote off \$0.9 million of unamortized deferred financing costs and unamortized discount in connection with these open market purchases. During the year ended December 31, 2005, we repurchased an additional \$42.7 million in aggregate principal amount of our 11¼% senior subordinated notes in the open market. We paid an aggregate of \$5.9 million of premiums and wrote off \$1.5 million of unamortized deferred financing costs and unamortized discount in connection with these open market purchases. As permitted by the indenture governing these notes, on June 15, 2006, we redeemed the remaining \$164.7 million in aggregate principal amount of our outstanding 11¼% senior subordinated notes at 105.625% of par. In connection with this early redemption, we paid a \$9.3 million premium and wrote off \$4.8 million of unamortized deferred financing costs and unamortized discount. The amount of the 11¼% senior subordinated notes included in the accompanying consolidated balance sheets, net of unamortized discount, was \$163.0 million as of December 31, 2005.

Our Credit Agreement and the indenture governing our 9¾% senior notes contain numerous restrictive covenants that, among other things, limit our ability to incur additional indebtedness, pay dividends or make distributions to stockholders, repurchase capital stock or debt, make investments, sell assets or subsidiary stock, create or permit liens on assets, engage in transactions with affiliates, enter into sale/leaseback transactions, issue subsidiary equity and enter into consolidations or mergers. Our Credit Agreement also currently requires us to maintain a minimum coverage ratio of interest and certain fixed charges and a maximum leverage and senior secured leverage ratio of EBITDA (as defined in the Credit Agreement) to funded debt.

CBRE Melody has credit agreements with Washington Mutual Bank, FA (WaMu) and JP Morgan Chase Bank, N.A. (JP Morgan) for the purpose of funding mortgage loans that will be resold. The credit agreement with WaMu was previously with Residential Funding Corporation (RFC). On December 1, 2004, we and RFC entered into a Fifth Amended and Restated Warehousing Credit and Security Agreement which provided for a warehouse line of credit of up to \$250.0 million, bore interest at one-month LIBOR plus 1.0% and expired on September 1, 2005. This agreement provided for the ability to terminate the warehousing commitment as of any date on or after March 1, 2005, upon not less than thirty days advance written notice. On March 1, 2005, we and RFC signed a consent letter, which approved the assignment to and assumption of the Fifth Amended and Restated Credit and Security Agreement by WaMu. During the latter half of 2005 and continuing into 2006, we executed several amendments extending the warehouse line of credit with WaMu, the last of which extended the agreement until July 1, 2006.

Effective July 1, 2006, CBRE Melody entered into a \$200.0 million multifamily mortgage loan repurchase agreement, or Repo Agreement, with WaMu. The Repo Agreement replaced the warehouse line of credit with WaMu, which expired on July 1, 2006. The Repo Agreement continues indefinitely unless or until thirty days written notice is delivered, prior to the termination date, by either CBRE Melody

**CB RICHARD ELLIS GROUP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**

**8. Debt (Continued)**

or WaMu. Under the Repo Agreement, CBRE Melody will originate multifamily loans and sell such loans to one or more investors, including Fannie Mae, Freddie Mac, Ginnie Mae or any of several private institutional investors. WaMu has agreed to purchase certain qualifying mortgage loans after such loans have been originated, but prior to sale to one of the aforementioned investors, on a servicing retained basis, subject to CBRE Melody's obligation to repurchase the mortgage loan.

On November 15, 2005, CBRE Melody entered into a secured credit agreement with JP Morgan to establish a warehouse line of credit. This agreement provides for a \$250.0 million senior secured revolving line of credit, bears interest at the daily Chase London LIBOR rate plus 0.75% and expires on November 14, 2006.

During the nine months ended September 30, 2006, we had a maximum of \$399.8 million of warehouse lines of credit principal outstanding. As of September 30, 2006 and December 31, 2005, we had \$92.9 million and \$256.0 million of warehouse lines of credit principal outstanding, respectively, which are included in short-term borrowings in the accompanying consolidated balance sheets. Additionally, we had \$92.9 million and \$256.0 million of mortgage loans held for sale (warehouse receivables), which represented mortgage loans funded through the lines of credit that, while committed to be purchased, had not yet been purchased as of September 30, 2006 and December 31, 2005, respectively, and which are also included in the accompanying consolidated balance sheets.

On July 31, 2006, CBRE Melody entered into a \$60.0 million revolving credit note with JP Morgan for the purpose of purchasing qualified investment securities, which include but are not limited to U.S. Treasury and Agency securities. The proceeds of this note will not be made generally available to CBRE Melody, but will instead be deposited in an investment account maintained by JP Morgan and will be used and applied solely to purchase qualified investment securities. Borrowings under the revolving credit note will bear interest at 0.50%. All outstanding principal on this note and all accrued interest unpaid shall be due and payable on demand, or if no demand is made, then on or before July 31, 2007. As of September 30, 2006, there were no amounts outstanding under this revolving credit note.

In connection with our acquisition of Westmark Realty Advisors in 1995 (now known as CB Richard Ellis Investors), we issued approximately \$20.0 million in aggregate principal amount of senior notes. The Westmark senior notes are redeemable at the discretion of the note holders and have final maturity dates of June 30, 2008 and June 30, 2010. On January 1, 2005, the interest rate on all of the Westmark senior notes was adjusted to equal the interest rate in effect with respect to amounts outstanding under our previous credit agreement. On May 31, 2005, with the exception of one note holder, we entered into an amendment to eliminate a letter of credit requirement and adjust the interest rate to equal the interest rate in effect with respect to amounts outstanding under our previous credit agreement plus twelve basis points. This interest rate is now equal to the interest rate in effect with respect to amounts outstanding under our Credit Agreement plus twelve basis points. The amount of the Westmark senior notes included in short-term borrowings in the accompanying consolidated balance sheets was \$11.2 million and \$11.6 million as of September 30, 2006 and December 31, 2005, respectively.

Insignia, which we acquired in July 2003, issued loan notes as partial consideration for previous acquisitions of businesses in the U.K. The acquisition loan notes are payable to the sellers of the previously acquired U.K. businesses and are secured by restricted cash deposits in approximately the same amount.

**CB RICHARD ELLIS GROUP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
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**8. Debt (Continued)**

The acquisition loan notes are redeemable semi-annually at the discretion of the note holder and have a final maturity date of April 2010. As of September 30, 2006 and December 31, 2005, \$3.2 million and \$4.6 million, respectively, of the acquisition loan notes were outstanding and are included in short-term borrowings in the accompanying consolidated balance sheets.

In January 2006, we acquired an additional stake in our Japanese affiliate IKOMA CB Richard Ellis KK (IKOMA), which increased our total equity interest in IKOMA to 51%. As a result, we are now consolidating IKOMA's financial statements, which include debt. IKOMA utilizes short-term borrowings to assist in funding its working capital requirements. As of September 30, 2006, IKOMA had \$6.8 million of debt outstanding, which is included in short-term borrowings in the accompanying consolidated balance sheets.

A significant number of our subsidiaries in Europe have had a Euro cash pool loan since 2001, which is used to fund their short-term liquidity needs. The Euro cash pool loan is an overdraft line for our European operations issued by HSBC Bank. The Euro cash pool loan has no stated maturity date and bears interest at varying rates based on a base rate as defined by HSBC Bank plus 2.5%. As of September 30, 2006 and December 31, 2005, there were no amounts outstanding under this facility.

**9. Commitments and Contingencies**

We are a party to a number of pending or threatened lawsuits arising out of, or incident to, our ordinary course of business. Our management believes that any liability that may result from disposition of these lawsuits will not have a material effect on our consolidated financial position or results of operations.

We had an outstanding letter of credit totaling \$0.4 million as of September 30, 2006, excluding letters of credit related to our subsidiaries outstanding indebtedness and operating leases. The \$0.4 million outstanding letter of credit is a Fannie Mae letter of credit executed by CBRE Melody and expires on December 10, 2006. However, we are required to renew this letter of credit until our obligation to cover our portion of certain potential credit losses is satisfied.

We had guarantees totaling \$3.0 million as of September 30, 2006, which include various guarantees of management contracts in our operations overseas as well as a guarantee to Fannie Mae for \$0.4 million. The guarantee obligation related to the agreement with Fannie Mae will expire in December 2007. The other guarantees will expire at the end of each of the respective management agreements.

An important part of the strategy for our investment management business involves investing our capital in certain real estate investments with our clients. These co-investments typically range from 2% to 5% of the equity in a particular fund. As of September 30, 2006, we had committed \$69.3 million to fund future co-investments.

**CB RICHARD ELLIS GROUP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**

**10. Comprehensive Income**

Comprehensive income consists of net income and other comprehensive (loss) income. In the accompanying consolidated balance sheets, accumulated other comprehensive loss consists of foreign currency translation adjustments and minimum pension liability adjustments. Foreign currency translation adjustments exclude any income tax effect given that the earnings of non-U.S. subsidiaries are deemed to be reinvested for an indefinite period of time.

The following table provides a summary of comprehensive income (dollars in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Net income	\$ 92,309	\$ 56,936	\$ 193,473	\$ 121,929
Foreign currency translation (loss) gain	(1,771 )	(507 )	6,431	(3,371 )
Comprehensive income	\$ 90,538	\$ 56,429	\$ 199,904	\$ 118,558

**11. Earnings Per Share**

Basic earnings per share is computed by dividing net income by the weighted average number of common shares outstanding during each period. Where appropriate, the computation of diluted earnings per share further assumes the dilutive effect of potential common shares, which include stock options, stock warrants and certain contingently issuable shares. Contingently issuable shares represent non-vested stock awards. In accordance with SFAS No. 128, *Earnings Per Share*, these shares are included in the dilutive earnings per share calculation under the treasury stock method. The following is a calculation of earnings per share (dollars in thousands, except share data):

	Three Months Ended September 30, 2006			2005		
	Income	Shares	Per Share Amount	Income	Shares	Per Share Amount
<b>Basic earnings per share:</b>						
Net income applicable to common stockholders	\$ 92,309	226,749,704	\$ 0.41	\$ 56,936	222,532,011	\$ 0.26
<b>Diluted earnings per share:</b>						
Net income applicable to common stockholders	\$ 92,309	226,749,704		\$ 56,936	222,532,011	
Dilutive effect of contingently issuable shares		420,235				
Dilutive effect of stock options		6,773,833			7,799,802	
Net income applicable to common stockholders	\$ 92,309	233,943,772	\$ 0.39	\$ 56,936	230,331,813	\$ 0.25



**CB RICHARD ELLIS GROUP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
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**11. Earnings Per Share (Continued)**

	Nine Months Ended September 30, 2006			2005		
	Income	Shares	Per Share Amount	Income	Shares	Per Share Amount
<b>Basic earnings per share:</b>						
Net income applicable to common stockholders	\$ 193,473	226,095,680	\$ 0.86	\$ 121,929	221,502,507	\$ 0.55
<b>Diluted earnings per share:</b>						
Net income applicable to common stockholders	\$ 193,473	226,095,680		\$ 121,929	221,502,507	
Dilutive effect of contingently issuable shares		273,119				
Dilutive effect of stock options		7,151,010			7,831,917	
Net income applicable to common stockholders	\$ 193,473	233,519,809	\$ 0.83	\$ 121,929	229,334,424	\$ 0.53

**12. Fiduciary Funds**

The accompanying consolidated balance sheets do not include the net assets of escrow, agency and fiduciary funds, which are held by us on behalf of clients and which amounted to \$952.6 million and \$759.8 million at September 30, 2006 and December 31, 2005, respectively.

**13. Pensions**

Net periodic pension cost consisted of the following (dollars in thousands):

	Three Months Ended September 30, 2006		Nine Months Ended September 30, 2006		2005	
Service cost	\$ 1,762	\$ 1,386	\$ 5,133	\$ 4,193		
Interest cost	3,574	3,040	10,475	9,413		
Expected return on plan assets	(3,745 )	(3,381 )	(10,874 )	(10,471 )		
Amortization of prior service benefit	(122 )	(116 )	(355 )	(359 )		
Amortization of unrecognized net loss	389	189	1,130	586		
Net periodic pension cost	\$ 1,858	\$ 1,118	\$ 5,509	\$ 3,362		

We contributed \$1.9 million and \$5.8 million to fund our pension plans during the three and nine months ended September 30, 2006, respectively. We expect to contribute a total of \$7.6 million to fund our pension plans for the year ending December 31, 2006.

**14. Liabilities Related to the Insignia Acquisition**

The Insignia Acquisition gave rise to the consolidation and elimination of some Insignia duplicate facilities and redundant employees as well as the termination of certain contracts as a result of a change of control of Insignia. As a result, we accrued certain liabilities in accordance with Emerging Issues Task

**CB RICHARD ELLIS GROUP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**

**14. Liabilities Related to the Insignia Acquisition (Continued)**

Force (EITF) Issue No. 95-3, *Recognition of Liabilities in Connection with a Purchase Business Combination*. These remaining liabilities assumed in connection with the Insignia Acquisition consist of the following and are included in the accompanying consolidated balance sheets (dollars in thousands):

	<b>Liability Balance at December 31, 2005</b>	<b>2006 Utilization</b>	<b>To be Utilized</b>
Lease termination costs	\$ 19,289	\$ (8,315 )	\$ 10,974
Legal settlements anticipated	7,670	(733 )	6,937
Severance	671	(5 )	666
Costs associated with exiting contracts	69	(69 )	
	\$ 27,699	\$ (9,122 )	\$ 18,577

The remaining liability associated with items previously charged to merger-related costs in connection with the Insignia Acquisition consisted of the following (dollars in thousands):

	<b>Liability Balance at December 31, 2005</b>	<b>2006 Utilization</b>	<b>To be Utilized</b>
Lease termination costs	\$ 18,302	\$ (3,934 )	\$ 14,368

**CB RICHARD ELLIS GROUP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**

**15. Guarantor and Nonguarantor Financial Statements**

The 9¾% senior notes and the Credit Agreement are jointly and severally guaranteed on a senior basis by us and substantially all of our domestic subsidiaries (See Note 8 for additional information).

The following condensed consolidating financial information includes:

(1) Condensed consolidating balance sheets as of September 30, 2006 and December 31, 2005; condensed consolidating statements of operations for the three and nine months ended September 30, 2006 and 2005; and condensed consolidating statements of cash flows for the nine months ended September 30, 2006 and 2005, of (a) CB Richard Ellis Group as the parent, (b) CBRE as the subsidiary issuer, (c) the guarantor subsidiaries, (d) the nonguarantor subsidiaries and (e) CB Richard Ellis Group on a consolidated basis; and

(2) Elimination entries necessary to consolidate CB Richard Ellis Group as the parent, with CBRE and its guarantor and nonguarantor subsidiaries.

Investments in consolidated subsidiaries are presented using the equity method of accounting. The principal elimination entries eliminate investments in consolidated subsidiaries and inter-company balances and transactions.

**CB RICHARD ELLIS GROUP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**

**15. Guarantor and Nonguarantor Financial Statements (Continued)**

**CONDENSED CONSOLIDATING BALANCE SHEET**  
**AS OF SEPTEMBER 30, 2006**  
**(Dollars in thousands)**

	Parent	CBRE	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Elimination	Consolidated Total
<b>Current Assets:</b>						
Cash and cash equivalents	\$ 30	\$ 19,238	\$ 42,848	\$ 76,157	\$	\$ 138,273
Restricted cash			8,164	573		8,737
Receivables, less allowance for doubtful accounts	2		208,767	295,661		504,430
Warehouse receivables(a)			92,900			92,900
Other current assets	58,612	512	36,024	33,533		128,681
<b>Total Current Assets</b>	<b>58,644</b>	<b>19,750</b>	<b>388,703</b>	<b>405,924</b>		<b>873,021</b>
Property and equipment, net			85,527	68,254		153,781
Goodwill			564,210	405,361		969,571
Other intangible assets, net			82,329	24,024		106,353
Deferred compensation assets		184,548				184,548
Investments in and advances to unconsolidated subsidiaries			69,661	52,573		122,234
Investments in consolidated subsidiaries	873,627	521,906	441,680		(1,837,213 )	
Inter-company loan receivable	34,013	564,237			(598,250 )	
Deferred tax assets, net	109,377					109,377
Other assets, net		8,598	41,931	24,712		75,241
<b>Total Assets</b>	<b>\$ 1,075,661</b>	<b>\$ 1,299,039</b>	<b>\$ 1,674,041</b>	<b>\$ 980,848</b>	<b>\$ (2,435,463 )</b>	<b>\$ 2,594,126</b>
<b>Current Liabilities:</b>						
Accounts payable and accrued expenses	\$	\$ 6,169	\$ 101,290	\$ 124,755	\$	\$ 232,214
Compensation and employee benefits payable			143,630	82,355		225,985
Accrued bonus and profit sharing			113,935	127,903		241,838
Income taxes payable	27,870					27,870
<b>Short-term borrowings:</b>						
Revolving line of credit		89,000		50,762		139,762
Warehouse lines of credit(a)			92,900			92,900
Other			14,422	10,992		25,414
<b>Total short-term borrowings</b>		<b>89,000</b>	<b>107,322</b>	<b>61,754</b>		<b>258,076</b>
Current maturities of long-term debt				322		322
Other current liabilities	21,949		413			22,362
<b>Total Current Liabilities</b>	<b>49,819</b>	<b>95,169</b>	<b>466,590</b>	<b>397,089</b>		<b>1,008,667</b>
<b>Long-Term Debt:</b>						
9¾% senior notes		130,000				130,000
Inter-company loan payable			575,687	22,563	(598,250 )	
Other long-term debt				2,262		2,262
<b>Total Long-Term Debt</b>		<b>130,000</b>	<b>575,687</b>	<b>24,825</b>	<b>(598,250 )</b>	<b>132,262</b>
Deferred compensation liability		200,243				200,243
Pension liability				44,822		44,822
Other liabilities			109,858	43,717		153,575
<b>Total Liabilities</b>	<b>49,819</b>	<b>425,412</b>	<b>1,152,135</b>	<b>510,453</b>	<b>(598,250 )</b>	<b>1,539,569</b>
<b>Commitments and contingencies</b>						
Minority interest				28,715		28,715
Stockholders' Equity	1,025,842	873,627	521,906	441,680	(1,837,213 )	1,025,842
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 1,075,661</b>	<b>\$ 1,299,039</b>	<b>\$ 1,674,041</b>	<b>\$ 980,848</b>	<b>\$ (2,435,463 )</b>	<b>\$ 2,594,126</b>

(a) Although CBRE Melody is included among our domestic subsidiaries, which jointly and severally guarantee our 9¾% senior notes and our Credit Agreement, all warehouse receivables funded under the WaMu and JP Morgan lines of credit are pledged to WaMu and JP Morgan, and accordingly, are not included as collateral for these notes or our other outstanding debt.



**CB RICHARD ELLIS GROUP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**

**15. Guarantor and Nonguarantor Financial Statements (Continued)**

**CONDENSED CONSOLIDATING BALANCE SHEET**  
**AS OF DECEMBER 31, 2005**  
**(Dollars in thousands)**

	Parent	CBRE	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Elimination	Consolidated Total
Current Assets:						
Cash and cash equivalents	\$ 6	\$ 106,449	\$ 305,956	\$ 36,878	\$	\$ 449,289
Restricted cash			4,698	481		5,179
Receivables, less allowance for doubtful accounts	3		178,724	304,448		483,175
Warehouse receivables(a)			255,963			255,963
Other current assets	38,629	80	22,438	30,211		91,358
Total Current Assets	38,638	106,529	767,779	372,018		1,284,964
Property and equipment, net			80,290	57,365		137,655
Goodwill						